



LIPA

Long Island Power Authority

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)
Quarterly Unaudited Financial Report
For the nine-month period ended September 30, 2020

2020
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LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

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LONG ISLAND POWER AUTHORITY

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Introduction

The Long Island Power Authority (LIPA) is a component unit of New York State (State). LIPA became the retail supplier of electric service in the counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), on May 28, 1998 by acquiring the transmission and distribution (T&D) system of the Long Island Lighting Company (LILCO). LILCO is a wholly owned subsidiary of LIPA, doing business as LIPA and Power Supply Long Island. As part of the LILCO acquisition, LIPA also acquired an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility, located in upstate New York, which is operated and managed by Exelon Corporation. LIPA provides electric delivery service in the Service Area, which includes approximately 1.1 million customers. The population of the Service Area is approximately 2.9 million.

LIPA was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

LIPA is also subject to the LIPA Reform Act, codified as Chapter 173, Laws of New York (Reform Act), which created the Securitization Law and established the Utility Debt Securitization Authority (UDSA). The Securitization Law's purpose was to provide a legislative foundation for the UDSA's issuance of restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness, providing savings to LIPA's customers on a net present value basis. The restructuring bonds are repaid by an irrevocable, nonbypassable restructuring charge on all LIPA's customers. The UDSA has a governing body separate from that of LIPA and has no commercial operations. The UDSA is included as a blended component unit of LIPA.

The Securitization Law allowed the UDSA to issue restructuring bonds totaling approximately \$4.5 billion, the proceeds of which refunded LIPA bonds and generated total net present value debt service savings of \$492 million for LIPA's customers.

To assist LIPA in providing electric service to its customers, LIPA entered into operating agreements to provide LIPA with the operating personnel, and a significant portion of the power supply resources, necessary for LIPA to provide electric service in the Service Area.

PSEG Long Island is LIPA's service provider pursuant to the Amended and Restated Operations Services Agreement (A&R OSA). Under the A&R OSA, the PSEG Long Island management company is the contracting entity with LIPA. PSEG Long Island is a wholly-owned subsidiary of Public Service Enterprise Group (PSEG). The A&R OSA provides for the operation, maintenance and related services for the T&D system. PSEG Long Island is paid a management fee and may earn incentives related to specified performance metrics. Essentially all costs of operating and maintaining LIPA's T&D system incurred by PSEG Long Island are passed through to, and paid for, by LIPA.

LIPA also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide for services related to fuel and power supply management and certain commodity activities. Separately from its contract with PSEG ER&T, LIPA maintains power purchase agreements with third party power generators.

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Overview of the Consolidated Financial Statements

LIPA is engaged in business type activities and follows financial reporting for enterprise funds. LIPA's basic unaudited consolidated financial statements include three financial statements: the Consolidated Statements of Net Position, the Consolidated Statements of Revenues, Expenses and Changes in Net Position and the Consolidated Statements of Cash Flows. These financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). LIPA publishes interim financial results on a quarterly basis with a fiscal year ending December 31. The interim consolidated financial statements and related Management's Discussion and Analysis do not include all the information and notes required under GAAP for annual consolidated financial statements. Therefore, the Management's Discussion and Analysis of LIPA's nine-month period ended September 30, 2020 compared to 2019 should be read in conjunction with the annual audited consolidated financial statements, which may be found on LIPA's website at www.lipower.org.

LIPA's reporting entity is comprised of itself and (i) its operating subsidiary LILCO and (ii) UDSA. All significant transactions between LIPA, LILCO and UDSA have been eliminated.

Contacting the Long Island Power Authority

This financial report is designed to provide LIPA's bondholders, customers, and other interested parties with a general overview of LIPA's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact LIPA at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit LIPA's website at www.lipower.org.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

September 30, 2020 and December 31, 2019

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2020 (unaudited)	2019 (audited)
Current assets:		
Cash and cash equivalents	\$ 298,252	166,436
Restricted cash – working capital requirements	247,586	248,499
Restricted cash	189,849	109,049
Investments	965,945	963,133
Counterparty collateral – posted by LIPA	29,319	116,409
Accounts receivable (less allowance for doubtful accounts of \$36,593 and \$27,821 at September 30, 2020 and December 31, 2019, respectively)	704,944	458,475
Other receivables	297,164	56,321
Fuel inventory	108,939	119,507
Material and supplies inventory	68,395	57,785
Regulatory assets to be recovered within one year	140,164	155,171
Prepayments and other current assets	65,355	51,431
Total current assets	<u>3,115,912</u>	<u>2,502,216</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,739	1,714
Restricted investments	—	18
Utility plant and property and equipment, net	8,992,676	8,773,962
Nuclear decommissioning trust fund	150,002	144,346
Other long-term receivables	23,656	25,276
Unrealized charges	163,972	197,546
Financial derivative instruments	24,690	2,625
Regulatory assets for future recovery	981,575	995,203
Acquisition adjustment (net of accumulated amortization)	683,106	766,637
Total noncurrent assets	<u>11,021,416</u>	<u>10,907,327</u>
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	196,516	212,680
OPEB expense	242	242
Pension expense	1,991	1,251
Accumulated decrease in fair value of commodity derivative instruments	8,911	8,375
Total deferred outflows of resources	<u>207,660</u>	<u>222,548</u>
Total assets and deferred outflows of resources	<u>\$ 14,344,988</u>	<u>13,632,091</u>

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

September 30, 2020 and December 31, 2019

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2020 (unaudited)	2019 (audited)
Current liabilities:		
Short-term debt	\$ 357,000	292,000
Current maturities of long-term debt	77,210	101,860
Current maturities of UDSA debt	152,269	126,057
Current portion of capital lease obligations	169,272	171,170
Accounts payable and accrued expenses	656,619	402,937
Regulatory liabilities payable in one year	49,671	34,240
Commodity derivative instruments	6,091	56,287
Accrued payments in lieu of taxes	7,992	8,236
Accrued interest	75,465	55,264
Customer deposits	36,184	38,794
Total current liabilities	1,587,773	1,286,845
Noncurrent liabilities:		
Long-term debt, net	4,710,146	4,207,551
Long-term UDSA debt, net	4,163,774	4,286,774
Capital lease obligations, net	1,452,203	1,581,061
Borrowings	63,123	67,084
Operations Services Agreement – employee retirement benefits	808,414	796,509
Financial derivative instruments	168,025	125,794
Commodity derivative instruments	9,964	35,763
Asset retirement obligation	69,881	67,293
Long-term liabilities and unrealized credits	49,475	49,713
Claims and damages	68,172	68,197
Total noncurrent liabilities	11,563,177	11,285,739
Deferred inflows of resources:		
Regulatory credits – grants	473,710	482,710
Accumulated increase in fair value of financial derivatives	24,690	2,625
OPEB expense	1,817	3,336
Pension expense	63	506
Accumulated increase in fair value of NMP2 Trust and OPEB Account	66,358	51,462
Total deferred inflows of resources	566,638	540,639
Net position:		
Net investment in capital assets	217,335	204,756
Restricted	133,857	100,967
Unrestricted	276,208	213,145
Total net position	627,400	518,868
Total liabilities, deferred inflows of resources and net position	\$ 14,344,988	13,632,091

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Nine-month period ended September 30, 2020 and 2019

(Amounts in thousands)

(unaudited)

	<u>2020</u>	<u>2019</u>
Operating revenues – electric sales (net of uncollectible expense)	\$ 2,894,726	2,779,698
Operating expenses:		
Operations – power supply charge	1,236,744	1,225,235
Operations – power supply charge – property taxes	165,760	159,667
Operations and maintenance	475,674	456,341
Storm restoration	342,797	65,120
General and administrative	21,614	21,873
Depreciation and amortization	313,857	267,189
Payments in lieu of taxes and assessments	259,719	254,351
Total operating expenses	<u>2,816,165</u>	<u>2,449,776</u>
Operating income	<u>78,561</u>	<u>329,922</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	17,869	37,478
Grant income	262,988	26,789
Carrying charges on regulatory assets	16,034	17,161
Other	4,261	1,108
Total other income, net	<u>301,152</u>	<u>82,536</u>
Interest charges and (credits):		
Interest on debt	277,915	279,385
Other interest	25,795	19,376
Other interest amortizations	(32,529)	(26,039)
Total interest charges and (credits), net	<u>271,181</u>	<u>272,722</u>
Change in net position	108,532	139,736
Net position, beginning of year	<u>518,868</u>	<u>494,850</u>
Net position, end of period	<u>\$ 627,400</u>	<u>634,586</u>

LONG ISLAND POWER AUTHORITY

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Consolidated Statements of Cash Flows

Nine-month period ended September 30, 2020 and 2019

(Amounts in thousands)

(unaudited)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Operating revenues received	\$ 2,790,360	2,799,239
Paid to suppliers and employees:		
Operations and maintenance	(435,846)	(392,200)
Operations – power supply charge	(1,329,937)	(1,352,049)
Operations – power supply charge – property tax related	(165,760)	(159,667)
Payments in lieu of taxes	(386,480)	(373,515)
Collateral on commodity derivative transactions, net	87,090	(66,874)
PSEG Long Island pension funding	(30,000)	(28,000)
Net cash provided by operating activities	<u>529,427</u>	<u>426,934</u>
Cash flows from investing activities:		
Earnings received on investments	16,968	23,513
Sale of restricted investment securities	18	91,892
Purchase of investment securities	—	(100,972)
Sales of investment securities	31,408	—
Purchase of investment securities – OPEB Account	(23,632)	(5,300)
Net cash provided by investing activities	<u>24,762</u>	<u>9,133</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	19,250	25,483
Proceeds from credit facility draws and commercial paper program	1,108,000	522,000
Redemption of credit facility draws and commercial paper program	(1,043,000)	(354,500)
Net cash provided by noncapital related activities	<u>84,250</u>	<u>192,983</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(570,962)	(459,682)
Proceeds from the issuance of long-term debt	560,639	540,481
Debt issuance costs	(680)	(332)
Other interest costs	(24,410)	(19,182)
Interest paid – LIPA	(142,890)	(135,588)
Interest paid – UDSA	(88,890)	(98,553)
Redemption of long-term debt – LIPA	(96,987)	(56,065)
Redemption of long-term debt – UDSA	(62,531)	(65,017)
Net cash used by capital and related financing activities	<u>(426,711)</u>	<u>(293,938)</u>
Net increase in cash and cash equivalents	211,728	335,112
Cash and cash equivalents at beginning of year	525,698	662,615
Cash and cash equivalents at end of period	<u>\$ 737,426</u>	<u>997,727</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 78,561	329,922
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	313,857	267,189
Other post-employment benefit non-cash expense	35,112	32,336
Nuclear fuel burned	6,215	7,039
Shoreham and VBA surcharges	37,703	35,451
Accretion of asset retirement obligation	2,587	2,239
Changes in operating assets and liabilities:		
Accounts receivable, net	(222,252)	(55,161)
Regulatory assets and liabilities	(44,521)	(25,627)
Fuel and material and supplies inventory	(42)	(14,378)
Accounts payable, accrued expenses and other	322,207	(152,076)
Net cash provided by operating activities	<u>\$ 529,427</u>	<u>426,934</u>

Management's Discussion and Analysis (Unaudited)

Nine-Month Period ended September 30, 2020 compared to 2019

Change in net position

Net position increased \$109 million for the nine-month period ended September 30, 2020, which is \$31 million lower when compared to the increase for nine-month period ended September 30, 2019 of \$140 million.

Operating revenues

Operating revenue increased \$115 million compared to the nine-month period of 2019, primarily due to (i) an increase to the base delivery revenue and (ii) an increase in the Delivery Service Adjustment (DSA) driven by Tropical Storm Isaias (Isaias) and (iii) an increase in the Power Supply Charge.

Operating expenses

The Power Supply Charge, including property taxes, increased \$18 million when compared to the same nine-month period of 2019 primarily due to higher costs.

Operations and maintenance expense increased \$19 million compared to the same nine-month period of 2019 due to expenses incurred to accommodate COVID-19 mitigation measures and higher costs related to storm preparation which did not materialize to a major storm event.

Storm restoration expense increased \$278 million when compared to the same nine-month period of 2019 due to the impact of Isaias which caused significant damage to LIPA's service territory on August 4, 2020. Subsequently, the President declared Long Island a major disaster making LIPA eligible for Federal Emergency Management Agency (FEMA) reimbursements for 75% reimbursement of eligible costs to repair damages; as such, LIPA recognized 75% of Isaias costs as Grant Income.

Depreciation and amortization increased \$47 million when compared to the same nine-month period of 2019 primarily due to an updated depreciation analysis and higher depreciable asset base.

Non-operating revenues and expenses

Other income increased \$219 million compared to the same nine-month period of 2019 primarily due to the FEMA application reimbursement related to Isaias. LIPA also filed its FEMA application for incremental COVID-19 costs incurred.

The outbreak of COVID-19, characterized as a pandemic by the World Health Organization, was declared a national emergency by the federal government on March 13, 2020.

Impacts from the COVID-19 Pandemic

On March 20, 2020, Governor Cuomo signed the "New York State on PAUSE" Executive Order, which cancelled or postponed non-essential gatherings, limited any concentration of individuals outside their home to workers providing essential services, and mandated the practice of social distancing. The Governor's Executive Order designated utilities, including power generation, fuel supply and transmission, as "essential businesses" in the State.

Because of the evolving nature of the outbreak, LIPA cannot predict the extent or what impact the State's NY on Pause policies and gradual reopening of the local economy may have on LIPA's financial condition or operations.

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Management's Discussion and Analysis (Unaudited)

Nine-month period ended September 30, 2020

Liquidity and Capital Resources

LIPA's policy is to, at all times, maintain cash on hand and available credit equivalent to at least 120 days of operating expenses. As of September 30, 2020, and December 31, 2019, LIPA's available sources of liquidity for operating purposes and capital program funding, as displayed below, achieved the policy target.

<i>(amounts in thousands)</i>	September 30, 2020	Days Cash	December 31, 2019	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents & investments	\$ 843,715		743,307	
OPEB Account cash, cash equivalents & investments	420,482		386,262	
PSEG Long Island Working Capital requirements	247,586		248,499	
Total operating liquidity	1,511,783	185 days	1,378,068	173 days
Available credit				
General Revenue Notes – Revolving Credit Facility	198,000		198,000	
General Revenue Notes – Commercial Paper	595,000		510,000	
Total available credit	793,000		708,000	
Total cash, cash equivalents, investments & available credit	\$ 2,304,783	282 days	2,086,068	262 days
Restricted cash, cash equivalents and investments				
FEMA Grant Proceeds	1,739		1,732	
UDSA	189,849		109,049	
Total restricted cash, cash and equivalents and investments	\$ 191,588		110,781	

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Management's Discussion and Analysis (Unaudited)

Nine-month period ended September 30, 2020

Financing Activities

LIPA's consolidated debt as of September 30, 2020 and December 31, 2019 is comprised of the following:

<i>(amounts in thousands)</i>	September 30, 2020	December 31, 2019
Long-term debt:		
General Revenue Bonds	\$ 4,470,664	4,046,297
Unamortized premiums	316,692	263,114
Less: Current maturities	(77,210)	(101,860)
	<u>4,710,146</u>	<u>4,207,551</u>
UDSA Restructuring Bonds	3,946,301	4,008,832
Unamortized premiums	369,742	403,999
Less: Current maturities	(152,269)	(126,057)
	<u>4,163,774</u>	<u>4,286,774</u>
Total Long-term debt	<u>8,873,920</u>	<u>8,494,325</u>
Short-term debt:		
General Revenue Notes – Commercial Paper	\$ 355,000	290,000
General Revenue Notes – Revolving Credit Facility	2,000	2,000
Total Short-term debt	<u>\$ 357,000</u>	<u>292,000</u>

LONG ISLAND POWER AUTHORITY

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Management's Discussion and Analysis (Unaudited)

Nine-month period ended September 30, 2020

Regulatory Assets and Liabilities

The table below displays LIPA's costs to be recovered from, or returned to, LIPA's customers in a future period (regulatory assets or liabilities). Amounts payable within one-year period increased \$15 million as of September 30, 2020 compared to December 31, 2019 due primarily to the timing of the recovery mechanism related to the Power supply charge.

<i>(amounts in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
Regulatory assets to be recovered within one year:		
OSA – employee retirement benefits	\$ 54,006	54,006
Shoreham property tax settlement	47,336	47,336
Delivery service adjustment	4,685	23,607
Employee benefit plan settlement	15,634	15,634
Power supply charge recoverable	9,754	8,957
Debt issuance costs	3,209	3,209
New York State assessment	4,288	1,393
Southampton visual benefit assessment	1,029	1,029
Distributed energy resources	223	—
	<u>\$ 140,164</u>	<u>155,171</u>
Regulatory assets for future recovery:		
OSA – employee retirement benefits	353,753	401,663
Shoreham property tax settlement	332,053	353,130
Employee benefit plan settlement	66,444	78,169
Delivery service adjustment	149,282	76,040
Power supply charge recoverable	41,707	44,766
Debt issuance costs	24,036	26,575
Unfunded actuarially determined reserves	8,018	8,018
Southampton visual benefit assessment	6,282	6,842
	<u>\$ 981,575</u>	<u>995,203</u>
Regulatory liabilities payable within one year:		
Utility 2.0	16,141	15,613
Revenue decoupling mechanism	—	12,875
Power supply charge refundable	18,329	—
Delivery service adjustment	6,717	5,737
Distributed energy resources	8,484	15
	<u>\$ 49,671</u>	<u>34,240</u>
Regulatory credits:		
Grants	473,710	482,710
	<u>\$ 473,710</u>	<u>482,710</u>



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